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Product Brief

Organics

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Report Highlights:

Expanding disposable income and a preference for "ecologically clean" food products is expected to support the growth of both domestic production and imports into Russia of organic products. Although the current value of trade is small, importers and leading supermarkets recognize the market's potential, and are beginning to position themselves to take an active role.

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SECTION I. SUMMARY	3
Table 1. Advantages and Challenges in the Russian Organic Market	4
Section II. Regulations and Policies.....	4
Section III. Consumption and Market Sectors.....	5
The Market for Organics in Russia	5
Russia as a Competitor	5
Section IV. Promotional Activities	6
Section V. Post Contacts and Further Information	6
CONTACT INFORMATION FOR FAS OFFICES IN RUSSIA AND THE U.S.....	6
USDA/FAS AND ATO PROGRAMS AND SERVICES.....	7
OTHER MARKET REPORTS	8
OTHER USEFUL CONTACTS	9
TRADE SHOWS IN RUSSIA.....	9

SECTION I. SUMMARY

Russia is a small but growing market for certified organic food products, with continued long-term expansion likely as the domestic economy strengthens. Although the availability of organics on the local market is very limited, Russian consumers often state their preference for so-called “ecologically clean” products (foodstuffs produced without herbicides, pesticides or fertilizers, or those manufactured without chemical additives and preservatives), indicating that the similar concept of organics will be accepted readily. However, an important challenge for U.S. exporters remains; a relatively low level of disposable income will hold down demand for pricier organic fruits, vegetables and related products in many of Russia’s regions, save the larger cities where household disposable income is generally higher.

Some organic products such as tea and nuts imported from Europe can already be found on supermarket shelves. Reportedly, some importers will soon be bringing in a wider variety of organics, and in one case, are planning to build a store that features organics in an affluent Moscow suburb. Limited advertising and other marketing activities are carried out for specifically for organics in Russia, given current small demand.

Russian legislators have recognized the importance of a solid legal underpinning for the domestic organic industry, and a conceptual legal framework is now being formulated. Until this work is completed, international organic certification is valuable as a marketing tool, but not for certification and legal definition in Russia.

Analysts forecast that about 1-2 years will be needed before significant organic purchases are realized, beginning in the larger cities, and about 3-5 years will be needed in outlying areas. As the domestic industry currently does not produce enough to meet demand, imports will be required to satisfy the expected growth in consumption, at least in the short and medium terms.

Table 1. Advantages and Challenges in the Russian Organic Market

Advantages	Challenges
U.S. companies can supply a range of high-quality and innovative organic products. The United States has a wider range of organic products than now produced in Russia.	Strong competition with European organic producers and exporters, who can more quickly supply the Russian market. Several supermarkets already stocking organics have strong links to Europe.
Entry into Moscow and other large markets is easier as they have well-developed distribution chains.	Russian consumers often prefer domestically produced foods to imports.
Local horticultural product producers and marketers are working with large supermarket chains to undertake promotional events. There is interest in organics	Producer associations are forming to build knowledge of local production, learn how to complete certification and develop new product lines. Domestic production is already expanding.
As organic certification is costly, US firms who already have international certification have an advantage.	The local market is currently small.
Local organic firms do not have enough processing equipment, and thus cannot provide value added organics.	Some trade missions have been undertaken, and local firms are becoming better producers for both the internal and external markets.
Russian organic industry representatives have been visiting organic trade shows in the United States, exposing them to our industry	Small but important range of local production, including jams, herbal teas, wild berry syrups, and honey, plus semi-processed products and essential oils.
Some organic products already appear on supermarket shelves.	RFE organic producers are beginning to see results from their marketing efforts in Japan and other nearby countries. As a result, they will be more competitive against US companies in those markets.

Section II. Regulations and Policies

Russia does not have organic regulations or laws on the books, but as noted above, this is expected to change within 1-2 years as the government has begun formulating a framework document for consideration during the current legislative session.

Despite the lack of a legal base, several companies are producing grains and vegetables domestically according to generally accepted organic principles. These products are exported from Russia and later officially certified by recognized organizations in the importing country. Certified organic products are also being imported, but until the above-mentioned legislation is passed, the organic labels will not be officially recognized.

For general information on Russia's food product certification regulations, please see GAIN report RS3020.

Section III. Consumption and Market Sectors

The Market for Organics in Russia

Three factors will drive market demand for organics in Russia. They are wealth, education, and a long-standing interest in producing, purchasing, and consuming “ecologically clean” products.

Supermarket owners that have begun to stock imported organic products specifically note that wealth is a key demand factor, noting that in general the organic food consumer has sufficiently greater disposable income to purchase higher-priced organics. Education is also important; the organic consumer or potential consumer has likely traveled overseas, resulting in a more refined market taste and exposure to organics in other countries where the development of this industry has outpaced Russia's. Finally, the average Russian consumer has either grown their own fruits and vegetables at a dacha plot, or retains the image of small plot production and how healthy the products from those plots are. If organics that are produced in a manner similar to the dacha production or that correspond to this image are available, the Russian consumer is more likely to purchase them with respect to others.

A significant proportion of Russia's total wealth is concentrated in Moscow. This makes reaching a large number of affluent consumers easier, and allows food marketing campaigns to be more focused and effective. The growth in supermarket chains with their centralized purchasing systems also makes market entry easier than attempting to negotiate sales agreements with, and move product to, many smaller stores.

Current organic products on the shelves of leading supermarkets include: rice, noodles, tea, coffee, chocolate, food oils, fruits, and dairy products. South Africa and Holland are the principle suppliers, and China could also become an important origin, too. Surprisingly, organic bread and vegetables are not expected to be as popular, as these are commonly thought of as low-priced staples for the general population, and most consumers are thus not expected to pay the price differential that organic bread and vegetables would command.

Although the market is not completely ready for organics, at least on a country-wide scale, analysts believe that within 1-2 years, consumers in Moscow can begin paying the price difference that organics command, and in larger cities outside of the capital, about five years will be needed to sufficiently expand consumer to the point where purchases start to grow. Imports will be needed in the short and medium term to both meet internal needs for high-value organics, and to provide raw materials for its organic food processing industry.

The Russian Far East might be considered a natural market for organic apples and other fruits from the United States' west coast suppliers given transportation advantages and a recent upswing in demand for imported fruits in that area. However, traders report that the income level there is not yet high enough to encourage trade. Organic fruits also must compete directly with those produced “naturally” by small farmers or by families on dacha plots for home use.

Russia as a Competitor

According to Post's understanding of draft legislation, Russia is expected to adopt international standards and procedures for its organic industry. Industry representatives have indicated that by doing so they will be able to facilitate trade, both imports and exports, with all countries, including the United States.

In order to develop its small- and medium-sized business and provide other economic opportunities, the Russian government and other entities, such as international development agencies, are supporting organic production in the Russian Far East. Items produced there include fruits, berries, and honey. Russian firms are traveling to the United States and other countries to learn about organic production methods and legislation, and have brought back this knowledge to strengthen the skills and knowledge of the domestic industry. Some companies are developing value-added lines, but they often do not yet have the manufacturing expertise to supply a consistent, quality product to the market, or funding to purchase appropriate processing equipment. However, this can be expected to change as the companies learn more about the market's potential.

Several certifying organizations exist in Russia; when the legislative base is set through the draft legislation mentioned previously, they will have already established themselves in the market for certification services, and in some cases, organic production.

To enter the US market, some Russian companies are starting partnerships with American businesses to complete the certification process for trade with the United States. Such a partnership makes the cost of certification, which is significant, less burdensome, and provides much-needed industry experience. For the Russian Far East, the west coast of the United States is a natural market, given the demand for those products in California, Washington and Oregon. As an example of how domestic companies are becoming more knowledgeable and interested in the potential of organic production and trade, Russian companies recently exhibited at the "Expo-West" food show in California.

Russia may ultimately compete against the United States and other exporters in Europe, too; Russian companies attended the recent "BioFach" event in Germany. Some organic production is already taking place in western Russia, and exported to Europe. Business relationships between Russian producers and European importers have existed for some time.

Section IV. Promotional Activities

At the recent "ProdExpo" food show, an annual major event held in Moscow, organic chocolate and wine items were displayed by European companies, and about 64 "natural" items were also featured. To date, there have not been any promotional events held in Russia that are specific to organics. However, industry contacts indicate that some promotional activities will be taking place in Moscow supermarkets in the first half of 2004 featuring Russian products, and a food show is planned for mid-April.

Section V. Post Contacts and Further Information

CONTACT INFORMATION FOR FAS OFFICES IN RUSSIA AND THE U.S.

U.S. Agricultural Trade Office
American Embassy
Bolshoy Devyatinskiy Pereulok 8
121099 Moscow, Russia
Tel: 7 (095) 728-5560; Fax: 7 (095) 728-5069
E-mail: atomoscow@usda.gov

Jeffrey Hesse, Director

For mail coming from the U.S.:

Agricultural Trade Office
PSC 77 AGR
APO, AE 09721

For international mail:

Agricultural Trade Office
U.S. Embassy - Box M
Itainen Puistortie 14
00140 Helsinki, Finland

Covering Northwest Russia (St. Petersburg):

ATO Marketing Assistant
American Consulate General
Nevskiy Prospekt, 25
191186 St. Petersburg, Russia
Tel: 7 (812) 326-2580; Fax: 7 (812) 326-2561
E-mail: Maria.Baranova@usda.gov

Covering the Russian Far East (Vladivostok):

ATO Marketing Assistant
American Consulate General
Ulitsa Pushkinskaya, 32
690001 Vladivostok, Russia
Tel: 7 (4232) 300-070 or 300-089
Fax: 7 (4232) 300-089
E-mail: Svetlana.Ilyina@usda.gov

USDA/FAS AND ATO PROGRAMS AND SERVICES

The Foreign Agricultural Service and the Agricultural Trade Office/Moscow offer a variety of programs, services, and information resources to help U.S. exporters of food, beverage, and agricultural products learn more about the Russian market, establish initial contact with Russian buyers, and promote their products in the local market. Following is a partial listing of programs and services:

Trade Leads are direct inquiries from Russian buyers seeking U.S. sources for specific food, beverage, or agricultural products. U.S. companies can receive these Trade Leads by contacting the AgExport Services Division, FAS/USDA or by visiting the USDA/FAS Homepage (see contact information at the beginning of this section).

Buyer Alert is a bi-weekly publication providing information on specific food, beverage, and agricultural products offered by U.S. exporters. U.S. companies may place ads in Buyer Alert by contacting the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

U.S. Supplier Lists are drawn from an extensive database of companies that can supply a wide range of U.S. food, beverage, and agricultural products. The ATO Moscow supplies these lists to Russian importers on request. U.S. companies that wish to be included in this database should contact the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

Foreign Buyer Lists are drawn from an extensive database of Russian importers dealing with a wide range of food, beverage, and agricultural products. U.S. companies can order these lists through the AgExport Services Division, FAS/USDA (see contact information at the beginning of this section).

ATO/Moscow also coordinates U.S. participation in local trade shows (see list of Russian Trade Shows below), sponsors supermarket and menu promotions, provides support for trade missions, and can help arrange appointments for first-time visitors to Russia. For more detail on these and other programs or activities, please contact the ATO/Moscow (see contact information above).

The FAS website (www.fas.usda.gov) is an excellent source of information on other USDA/FAS export promotion/assistance programs, such as the Market Access Program (MAP) and Credit Guarantee Programs, as well as a wide range of information and reports on market opportunities for U.S. food, beverage, and agricultural exports world-wide.

OTHER MARKET REPORTS

Reports on the Russian food and agricultural market are available on the FAS website. U.S. exporters may also contact ATO/Moscow for copies of these reports (see contact information at the beginning of this section). The following reports may be of particular interest:

Report Title	Report #	Report Summary
Exporter Guide	RS4301	Provides an overview of the Russian food market, identifying opportunities for U.S. food and beverage products in the retail, HRI, and processing sectors
Food Processing Ingredients	RS4302	Examines the Russian food processing sector, focusing on market opportunities for U.S. food ingredients, including raw, semi-processed and specialty products
HRI Food Service	RS4304	Examines Russian hotel/restaurant/institutional sector, focusing on market opportunities for U.S. products in the food service industry
The Russian Marketplace	RS3310	Quarterly newsletter highlighting developments in the Russian food retail, HRI, and processing sectors
Food and Agricultural Import Regulations and Standards	RS3020	Detailed information on Russia's food import requirements, including certification, labeling and packaging requirements
New Resolution Concerning Use of GMOs in Food Products	RS3031	Overview of new regulations concerning the testing and approval of foods containing of genetically-modified organisms (GMOs)
Livestock and Products Annual	RS3018	Review of the Russian market for beef and pork, including production, consumption and trade.
Poultry and Products Annual	RS3019	Analysis of the Russian market for poultry meat, including production, consumption and trade.
Fishery Products Annual	RS3033	Overview of the Russian market for fish and seafood products meat, including production, consumption and trade.

OTHER USEFUL CONTACTS

American Chamber of Commerce in Russia
Kosmodamianskaya Nab. 52, Building 1, 8th floor
113054 Moscow, Russia
Tel: (095) 961-2141; Fax: (095) 961-2142
Email: amcham@amcham.ru

American Chamber of Commerce in St. Petersburg
25 Nevsky Prospect
191186 St. Petersburg, Russia
Tel: (812) 326-2590; Fax: (812) 326-2591
Email: sbytchkov@amcham.ru

For questions on agricultural machinery, food processing and packaging equipment/materials, refrigeration equipment, etc., please contact the U.S. & Foreign Commercial Service:

Foreign Commercial Service
Bldg. 2, 23/38 Bolshaya Molchanovka
121069 Moscow, Russia
Tel: 7 (095) 737-5030; Fax: 7 (095) 737-5033
E-mail: moscow.office.box@mail.doc.gov

TRADE SHOWS IN RUSSIA

The following specialized shows present unique opportunities to introduce U.S. fish and seafood products to the Russian market:

Seafood Russia 2004 (April 13-15, 2004 – Moscow)

Organized by London-based trade show organizer 'Highway Events' and local organizer 'Central European Exhibitions', the first *Seafood Russia* conference and show will be held April 13-15, 2004. Major areas of focus include fish and seafood semi-processed and ready-to-eat products, aquaculture, processing equipment and technology, and transportation.

For more information, please contact:

'Central European Exhibitions' OOO
Tel: (+7-095) 788-6553
Fax: (+7-095) 788-6554
Email: seafood@expocee.ru
Web: seafood-russia.ru

InRybProm-2004 International Fish and Seafood Show (June 22-25, 2004 – St. Petersburg)

Organized by the State Fishing Committee of the Russian Federation and show organizer Lenexpo, *InRybProm* will be held for the ninth consecutive year. About 500 companies from 25 countries are expected to participate in the show. Major topics include fishing equipment and technology, fish and seafood processing, packaging, transportation, and storage.

For more information, please contact:

LENEXPO OAO
Bolshoy pr., V.O., 103
199106 St. Petersburg
Tel/fax: (7-812) 321-2637 or 321-2654
E-mail: shapkin@mail.lenexpo.ru
Web: www.lenexpo.ru

Northwest Food Forum (April 13-15, 2004 - St. Petersburg)

The *Northwest Food Forum/Interfood* trade show is held annually in St. Petersburg and is the largest general food show in Northwest Russia. In 2003, the number of exhibitors increased 25 percent and visitor attendance was up by 30 percent over the previous year. Please contact the ATO Marketing Assistant in St. Petersburg or the U.S. Agricultural Trade Office in Moscow for additional information on the Northwest Food Forum.

World Food Moscow (September 21-24, 2004 - Moscow)

In 2003, *World Food Moscow* drew 950 exhibitors from 50 countries and attracted more than 50,000 visitors from all parts of Russia and from many neighboring countries. This is the longest running general food show in Russia and offers a good opportunity for exhibitors to introduce new food and beverage products to Russian buyers.

Prodexpo (February 2005 - Moscow)

The largest food and beverage exhibition in Russia, *Prodexpo* 2004 attracted 1,900 exhibitors from 55 countries and more than 90,000 visitors from all parts of Russia and from many neighboring countries. For the 2005, FAS will organize a U.S. Pavilion for exhibitors. Please contact the U.S. Agricultural Trade Office in Moscow for additional information.

A monthly organic newsletter can be found at the Horticultural and Tropical Products Division homepage (<http://www.fas.usda.gov/http/organics/organics.html>). Further information can be found at: <http://www.fas.usda.gov>.